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Impact of Financial Inclusion on Indian Economic Development

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Abstract - **Financial inclusion is developing as a new economic development paradigm that plays an important role in pushing poverty away. It refers to the provision, at a reasonable price, of bank services to masses including wealthy and underprivileged individuals. Financial inclusion in terms of economic development and advancement of society is a significant goal for the nation. It reduces the gap between the wealthy and the poor. Even an inclusive financial system is essential for a nation's sustained development and progress in which all sectors of society have timely and inexpensive access to financial services. Financial inclusion aims, in particular in rural regions, to encourage growth and provide employment for a large majority of the people. The financial inclusion process includes ensuring that each family has bank accounts and that they are included in the banking system. The financial system has a first-class effect on long-term economic growth. Since independence, the Reserve Bank of India has attempted a number of steps to increase access to cheap financial services via financial education, leveraging technology and raising awareness. It enables secure custody of funds, availability for multi-purpose loans, risk diversification via numerous avenues of investment, risk protection through different insurance products, etc., which facilitates and makes people's lives more comfortable. The research paper examines the effect on economic growth in India of financial inclusion.**

Index Terms - **Financial Inclusion; Economic Growth; Indian Economic Development, Poverty, Income Inequality, Financial Stability, etc.**

I.INTRODUCTION

The historical roots of financial inclusion (FI) date from the early 2000s and are now popular in all nations, irrespective of their economic growth accomplishments. Financial inclusion provides affordability and accountability to access products and services in the non-financial sectors to meet the financial needs of people via sustainable practices. Particularly vulnerable individuals are also able to get basic services in a structured financial framework as are those who are typically shut out of the traditional banking system because of their low income. The financial goods and services characterized by various financial institutions include financing institutions, cooperatives, insurance brokers, and commercial banks are loans, insurance, and money transfers to combat poverty. FI is a key economic need and popular with academics, legislators, policymakers and financial players, both formally and informally, and with the public at large. Nevertheless, the G20 and the World Bank have made efforts to increase IF in developing nations with a view to alleviating poverty and promoting economic participation.

Analysis of financial inclusion efforts and effect in the Indian context is very important and relevant. The new slogan of inclusive growth must strive to overcome the falls caused by the neo-liberal development model of the 1990s. Inclusion implies also integration in the economics of the individual – the individual, the institution. How far has this been achieved? A research on these lines would also provide insight on the path forward. This article examines some of the financial inclusion efforts, rules and imperatives, as well as their effect on the Indian economy.

India is a nation with 1.2 billion inhabitants distributed across 29 states and seven union territories. In our nation there are about 600,000 villages and 640 districts. A large majority of the population is deprived from simple access to money, particularly in rural regions. 40% of the families with bank account accounts work in rural regions, but only 38% of the 117,200 branches of scheduled commercial banks. Financial services access at cheap and reasonable rates has long been a worldwide problem. Therefore, an inclusive financial system is widely needed not only in

India but in other nations has become a political priority. Financial access may certainly enhance the financial and living conditions of the poor and the disadvantaged.

II. REVIEW OF LITERATURE

Dr V. Basil Hans (2016)Financial inclusion is a development planning agenda. India recognized this as a method of attaining most of the MDGs and included this in the Twelfth Five Year Plan approach paper (2012-2017). We now need to look at the concept and agenda of inclusive growth with NITI Aayog and Sustainable Development Goals (SDGs), in operation. We must, at the same time, take note of advances in the field of 'financial inclusion,' in particular via the instrument of microfinance empowerment. How far has this been achieved, if inclusion implies 'integration' of the entity – person, institution – with the economy? This is the research concern in this article. Whilst the idea that financial inclusion is essential to economic wellbeing is not denied, many contend that this program has significant gaps: I Only 35% of the Indian population had official accounts in 2014, up from the worldwide average of 62%. (ii) India's rates are badly on credit card, micro-insurance, corporate communication, mobile banking, etc.

Dinabandhu Sethi and Debashis Acharya (2018)The aim of this study is to evaluate the dynamic effect on economic development of financial inclusion in several developing and developed nations. The purpose of the research is to explore the connection between financial inclusion and economic development using certain data panel models such as country-fixed effects, random effects and time-fixed effect regressions, panel mportant ion and panel causality tests. The co-integration of the panel tests the long-term link between financial inclusion and economic development, while the causality test of the panel determines the direction between financial integration and economic growth. For the period 2004-2010, the statistics on financial inclusion are derived from Sarma (2012). There are two limitations to this research. In the first place, this research solely includes banks in the analysis. Secondly, the time the long-term connection is tested is not long enough. The empirical results show a favorable and long-term connection between financial inclusion and economic development in 31 nations worldwide. In addition, the panel causality test demonstrates a two-way causation between financial inclusion and economic growth The research thus shows that financial integration is one of the major drivers of economic development. This research analyzes empirically the quantitative effect of global financial inclusion initiatives. The research also indicates that policies that underline reforms of the financial system in general and promote financial inclusion in particular would lead to greater economic growth in the long term.

Anjum Ubaid Siddiqui (2018)This article emphasizes the importance of financial inclusion in society's social and economic growth. The research focuses on the significance of financial integration in improving India's position on the economy and RBI's attempts to achieve it. Data have been collected through secondary sources and publications to analyze these facts. Following an analysis of the facts and statistics, it ha' been determined that financial i'tegration plays a significant part in removing poverty from the nation. It certainly plays an mportantt function and works in a Good way. The study points to a few areas that are important to future investigation. First, given the high transaction costs associated with the use of bank accounts, it is essential to investigate alternatives that may enhance access of financially excluded people to formal financing. Secondly, it is necessary to study the viability of mobile payment technology as a facilitator for financial inclusion with the ever-growing Indian population and the penetration of mobile phones in rural regions in mind. Thirdly, simple opening of no frills is not the answer; the type and frequency of transactions in these accounts are worth looking more closely.

Lourdunathan F. and Dr. Sawti Saxsena (2020)Financial inclusion emerges as a new economic development paradigm that plays an important part in pushing poverty out of the nation. It refers to the provision, at a reasonable price, of bank services to masses including wealthy and underprivileged individuals. Financial inclusion in terms of economic development and advancement of society is a significant goal for the nation. It reduces the gap between the wealthy and the poor. "Financial institutions are the strong foundations of progress, economic growth and economic development in the present situation.'' The objective of this research is to analyze the effect of financial inclusion on the Bank's growth in India. In emerging economies like India, the

banks play a vital role as mobilizers of savings and loans for production and investment. As a financial intermediary, banks contribute to the country's economic development via the identification and distribution of loans to entrepreneurs with the greatest opportunity of successfully starting new commercial operations. Financial access can really improve the financial conditions and living standards of the country's poor and disadvantaged people. There has always been an Indian lack of accessible, cheap and suitable financial services, and an efficient, inclusive financial system is necessary for the country's economic development. The Indian Reserve Bank (RBI) is playing a leading role in promoting financial inclusion for economic development with a view to increasing banking penetration, establishing new ATMs and implementing different national programs. The Reserve Bank utilized FIPs to assess the financial inclusion of banks.

Suman Dahiya and Manoj Kumar (2020) Even finance contributes to prosperity and economic development via poverty elimination or reduction, uneven revenue distribution and the supremacy of indigenous bankers. Financial inclusion is not a single dimension that can be reached immediately; it is a process that ends with various dimensions including access to and use of financial services and bank penetration. Three major aspects of financial inclusion are considered in this study: use, penetration and accessibility. The aim is to examine how financial inclusion is related to economic development in India. Spread between 2005 and 2017, the research explored the relationship between economic development and financial inclusion and its various aspects using the Bayesian vector auto-regression model (accessibility, penetration, and usage). The results indicate a substantial connection between economic development and the financial inclusion use component in India. With regard to the Financial Inclusion Index, it does not substantially explain economic development. This research is based on current data collected from the databases of the IMF and World Bank. The research is helpful for politicians and banks in formulating suitable policies to attain full financial inclusion, leading to strong economic development.

US Thathsarani, Jianguo Wei and GRSRC Samaraweera (2021)This research was conducted using secondary data from eight South Asian nations from 2004 to 2018 to fill this gap. Through main component analysis, a financial integration index has been created utilizing an econometric panel method with vector error correction models and a Granger causality test. According to the research findings, financial inclusion has a long-term effect on the development of human capital in South Asia, while short-term beneficial impact on economic growth. Private-sector domestic loans also affect short-term growth and human capital development in the economy. It enables the trust and management of information of vulnerable groups in their economies and allows the quality of transactions with less environmental effects to be improved. Government involvement to enhance access to financial services like ATMs and commercial banking is a policy that allows digital finance to speed up the attainment of South Asian Sustainable Development Goals.

III. OBJECTIVE OF THE STUDY

The main Objective of the Research Study is to analyze the Impact of Financial Inclusion on Indian Economic Development.

IV. RESEARCH METHODOLOGY

Data from secondary sources were gathered. The researchers originally intended to gather data from the start of economic reform in India, that is to say from 1991. However, statistics for the financial inclusion factors were not accessible. As a consequence, the statistics were collected for 10 years from 2010-11 to 2019-20. GDP and ATM data (per 100,000 people) was obtained from the global bank database, while data about the quantity of deposits and loans have been collected from the RBI's quarterly Basic Statistical Retention of Scheduled Commercial Banks which was transformed into an annual credit-deposit ratio. Multiple regression analysis was utilized as a primary statistical technique to examine the data. The researcher performed several tests to verify data sufficiency by evaluating autocorrelation, multi-co linearity and the normal distribution of the data before performing the regression analysis.

Table 1: Variables of the Study

Year	GDP	Credit Deposit Ratio	No. of ATMs (Per

			100,000 adults)
2019-20	2,035,393,459,979	76.73	18.00
2018-19	1,856,722,121,395	77.34	13.00
2017-18	1,827,637,859,136	77.02	11.00
2016-17	1,823,049,927,771	75.67	8.85
2015-16	1,656,617,073,124	75.00	7.27
2014-15	1,323,940,295,875	71.16	5.31
2013-14	1,186,952,757,636	74.14	4.29
2012-13	1,201,111,768,409	72.77	3.38
2011-12	920,316,529,730	73.77	2.74
2010-11	808,901,077,222	69.63	2.29

Since the research is aimed at assessing the effect of financial integration on India's economic development, economic growth is thus considered a dependent variable. Gross Domestic Product (GDP) is the proxy measure of economic growth at current prices. Economic growth is assessed by GDP as a good indicator of a country's economic growth rate. Sharma (2016) shows that the link between financial inclusion and GDP is positive. According to a 2012 IMF study, there are three fundamental aspects of banking financial inclusion:

- Usage of the baking services by the general public.
- Penetration of banking institutions which is indicated in terms of the number of deposit accounts and number of loan accounts.
- Accessibility of banking services which is determined in terms of the number of bank branches and number of ATMs.

Sarma (2008) developed a financial index that is based on three elements of the financial inclusion, namely penetration of the banking system, availability and actual use. Initially, our independent variables included ATMs per 100,000 people, loan accounts, deposit account number and bank branches per 100,000 individuals. But the autocorrelation and multi-colinearity problems have meant that one variable (number of branches of banking each 100,000 adult) was completely removed and the variables - the number of loan accounts and numbers of deposit accounts - were combined into credit-deposit ratios by dividing the number of loan accounts with the number of deposit accounts.

V. ANALYSIS AND INTERPRETATIONS

5.1 Results from Multiple Regression

The common proxy metric for a country's economic growth is GDP. In the research, the GDP is considered as a dependent variable over a period of ten years from 2010-11 to 2019-20. Financial includes the number of Automatic Dishes Machines (ATMs) per 100,000 people, and the credit/deposit ratio. Table 1 shows that GDP is continuously rising throughout the whole research period except for 2013-14, which may be the result of the 2012-13 global economic crisis. The ATMs have increased steadily, with the lowest at 2.29 in 2005-06 and the maximum at 18.00 in 2019-20. The number of ATMs shows increase of 6.86% over a period of 10 years (Table 3). The credit-deposit ratio exhibits an inconsistent development throughout the whole research period. The greatest CDR was registered in 2018-19 and the lowest in 2005-2006.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	F Change	Sig. F Change	Durbin-Watson
	.937[a]	.878	.843	25.168	.001	1.166

Table 2 shows the multiple regression analysis model summary. The results of the model show that R value is 937, which shows a strong correlation between dependent and independent variables. The model indicates additionally that the R Square value is 0.878 and the corrected R square is 0.843. The P value of the model is .001 which is less than 0.05 showing the fit and statistically significant regression model. As a rule of thumb, if the Durbin Watson test result is less than one or more than three, the issue of autocorrelation is indicated. In the current model the value of Durbin-Watson is 1.166, which shows that the model does not have any auto correlation issue.

Table 3: Regression Coefficients

Model B	Standardized Coefficients	Unstandardized Coefficients		t	Sig. Tolerance	Colinearity Statistics	
		Beta	Std. Error			VIF	
(Constant)		2.613	-3.015	-1.154	.286		
CDR	.325	.037	.055	1.489	.180	.367	2.728
ATMs	.658	.019	.056	3.015	.020	.367	2.728

Table 3 shows the findings of the financial inclusion and GDP regression study. The multicollinearity issue

is monitored by VIF. As a rule of thumb the value of VIF above 10 is not acceptable and is an indicator of multicollinearity. The table indicates that the VIF value for all independent variables is less than 10, which means that the model is free of multi-linearity problems. The findings show that the beta value of ATMs is 0.056 and the value of P is 0.020 at 5%. This shows that the effect of ATMs on GDP is positive and statistically significant. In addition, the beta value of CDR is 0.055, which indicates that CDR has a positive effect on GDP. The p value, however, is 180, showing the statistically small effect on GDP. The resulting regression equation is as follows:

$Y = -3.015 + .056X1 + .055X2 + \varepsilon$

Adults with greater education are more likely than those with lesser education to have and manage an account (Asuming, Osei-agyei, & Ibrahim, 2018). The chance of improving financial services rises with knowledge because those with greater awareness make the best use of their savings and investments. The findings of the research reveal that ATMs have a positive and substantial effect on GDP, which indicates that a lot quicker financial inclusion may be accomplished if banks start targeting underserved rural regions via contemporary banking facilities such as ATMs and Internet banking. Financial inclusion will be a key factor in guaranteeing access and equality, vital building blocks for our country's sustainable development. The findings of the research also demonstrate that the credit-deposit ratio has a beneficial effect on GDP, suggesting that financial services should extend to people either without access to financial services or with limited financial services. Revenue growth, improved education and new financial products may increase the degree of financial inclusion. Access to the disadvantaged sector of society and its mainstream development activities to the right financial goods and services is a prerequisite for economic progress.

5.2 Results

The aim of this research is to examine the effect of financial inclusion on Indian economic development between 2010-11 and 2019-20. The Indian economy has been examined mainly because the financial system in India is centered heavily on banks. Financial inclusion thus plays a major part in achieving holistic economic development in India. In this research, we examined the effects of financial inclusion on economic development using multiple regression analyses. The findings of the regression support the positive and substantial effect of the financial inclusion on GDP, with the exception of one vary of financial inclusion (the credit deposit ratio). Furthermore, these positive results support the steps taken by the Indian government and RBI to achieve financial inclusion such as establishing a robust network of planned business banks, lead banking, the establishment of self-help groups, cooperatives and rural regional banks, basic saving banking deposits (BSBD), relaxed and simplified policy on branch approvals. In attaining broader financial inclusion in the nation, RBI established a banking model and eliminated all regulatory bottles. Nevertheless, financial inclusion must now be looked at through the lens of the digital economy.

VI. CONCLUSION

For emerging countries, FI is a global problem, but also a shared one for industrialized economies. FI enhances the capacity to gain economic resources and to secure the living conditions of all individuals in various economic systems. Increasing financial infrastructure accessible improves human economic power. Financial inclusion beyond credit and bank accounts. Individuals, particularly those in the poorer sectors of society, should easily access a broad variety of financial services, including saving deposits, insurance, refunds etc. Financial literacy is one of the greatest obstacles to financial inclusion. Financial inclusion without financial literacy can not have any significance since stakeholders cannot understand its advantages and dangers. In financial inclusion, digital banking and financial literacy will play a significant role. Financial inclusion in India must thus go a long way to integrate the less-favored sectors of the population into mainstream development. The political implications of the research are that the main components of economic development are financial integration and its many aspects. The government and other policymakers must ensure that sustainable and inclusive growth is maintained and promoted via financial inclusion. The results also support the government of India's social banking initiatives in order to attain financial inclusion. ‘’However, not all financial inclusion characteristics have a substantial effect.” The Government should focus more on

implementing measures to promote financial inclusion, thus really achieving the primary goal of financial inclusion, namely increasing economic development and financial stability and reducing poverty and income inequalities.

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